



A MONTHLY REPORT ON MARYLAND'S ECONOMY

MAY 2007

Recent Indicators

- Nationally, economic growth slowed in the first quarter of 2007. Real gross domestic product grew at an annualized rate of 1.3 percent, down from 2.5 percent in the fourth quarter of 2006. Weakness in the housing sector is the primary reason for the slower growth. Real personal consumption and the nation's employment picture remain bright spots overall. Real personal consumption expenditures increased by an annualized 3.8 percent.
- Consumer and small business confidence remain at their 2006 averages, which is less optimistic than the past few years. These confidence indicators have tended to vary according to the price of energy; when gasoline costs go up, consumer confidence goes down.
- The consumer price index rose 2.8 percent since March 2006 and the producer price index rose 4.6 percent. Core inflation, which excludes energy and food costs, is lower, especially at the producer price level. Private sector wages and salaries have grown 3.5 percent since the first quarter of 2006.
- Interest rates remained virtually unchanged over the previous year after several increases in 2005 and 2006. According to the Small Business Administration, rates for the smallest loans have risen over 2 percent since the first quarter of 2005. At the same time, venture capital investment increased to a recent high of \$7.1 billion in the first quarter, although with fewer deals.
- Continuing problems for refineries in the United States and abroad, combined with strong global gasoline demand, have raised the Energy Information Administration's projected average summer gasoline prices to \$2.95 per gallon. During the summer season, the average monthly gasoline pump price is projected to peak at \$3.01 per gallon in May and again in August, compared with \$2.98 per gallon last July.

Job Growth

Total U.S. nonfarm payroll employment rose by 180,000 in March to 137.6 million after seasonal adjustment. From March 2006 to March 2007, unadjusted payroll employment grew by just under 1.5 percent. The largest growth rates were in the West and South. The Northeast states posted job gains of 0.9 percent, while Midwest job growth was only 0.4 percent. States with the fastest job growth included Utah (4.5 percent), Wyoming (4.0 percent), Arizona (3.8 percent), Louisiana (3.7 percent), Idaho (3.3 percent) and Nevada (3.1 percent). Nationally, employment increased in construction, retail trade and health care. The number of manufacturing jobs continued to trend down.

Maryland-based jobs have grown by 0.8 percent since March 2006, with employers adding 19,800 net new jobs over the year (not seasonally adjusted). Maryland's Department of Labor, Licensing and Regulation reported that Maryland-based payroll employment advanced by 4,500 jobs over the month (seasonally adjusted). Gains in the public sector and in trade/transportation led the monthly expansion.

HIGHLIGHTS

The Fed Holds Interest Rates at 5^{1/4} percent

With core inflation elevated, policy makers' predominant concern remains the risk that inflation will fail to moderate as expected.

Maryland Unemployment Rate Remains Well Below U.S.

Maryland's unemployment rate in March 2007 was 3.6 percent, the lowest level since March 2001.

Pace of Maryland Job Growth Slows

While muted performance in the state's construction industry has contributed to a slowing in the overall pace of job generation, Maryland's economy has created approximately 21,000 jobs over the past year.

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

David W. Edgerley
Secretary

Labor Force and Unemployment

An expanding labor market and tight supply of skilled and professional workers continued in most parts of the country. Maryland's seasonally adjusted unemployment of 3.6 percent in March was at the lowest level since March 2001 according to the Maryland Department of Labor, Licensing and Regulation. Maryland's unemployment rate continues to remain below the U.S. unemployment rate and was the 10th lowest unemployment rate among states in March. The U.S. unemployment rate was essentially unchanged at 4.4 percent in March. The number of unemployed persons and the labor force participation rate have held steady in the U.S. as well.

In March, the Northeast and South registered the lowest unemployment rates among the four regions, 4.1 percent each. The Midwest again reported the highest rate, 4.7 percent. In March, the number of initial claims for unemployment insurance declined 1.3 percent over the same period last year. An initial claim is filed by a worker at the beginning of a period of unemployment. These data are a good measure of the number of workers with significant attachment to the labor force who have been laid off recently.

The Federal Reserve information on current economic conditions noted that, with rising demand for many types of workers, wage pressures increased slightly, although pay increases generally remained moderate overall.

Unemployment Rates (Percent)				
	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	US	MD	US
March 2007	3.6	4.5	3.6	4.4
February 2007	4.1	4.9	3.8	4.5
March 2006	3.7	4.8	3.7	4.7

Locally, the early onset of seasonal hiring helped to lower unemployment rates in each of Maryland's jurisdictions. In Allegany, Garrett, Dorchester, Wicomico and Worcester counties, rising employment lowered unemployment rates by a full percentage point or more. During March, Howard, Calvert and Montgomery counties reported unemployment lows, with rates in each jurisdiction below 3.0 percent.

The Baltimore region experienced the largest drop in unemployment in the state. Baltimore City's unemployment rate dropped to 5.7 percent, the lowest rate since December 2000. The Southern Maryland region unemployment rate also decreased from February to March, and remained the lowest in the state at 3.0 percent unemployment. The Eastern Shore's unemployment rate dropped to 4.7 percent in March and the Western Maryland region unemployment rate stood at 5.3 percent in March.

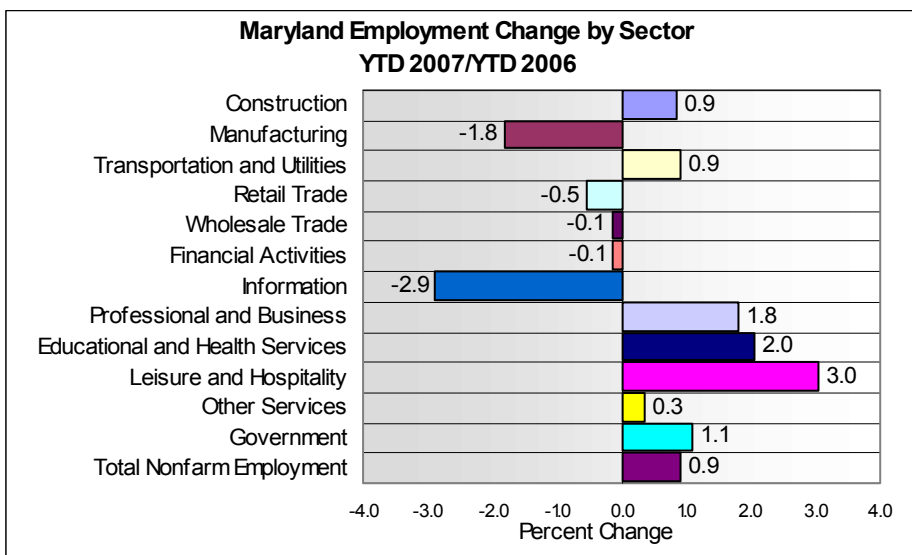
Maryland Unemployment Rates (Percent)			
	Mar 2006	Feb 2007	Mar 2007
Maryland	3.7	4.1	3.6
Baltimore Region	3.9	4.3	3.7
Anne Arundel	3.1	3.5	3.0
Baltimore	3.8	4.2	3.6
Baltimore City	6.1	6.5	5.7
Carroll	3.0	3.8	3.2
Harford	3.5	4.1	3.5
Howard	2.7	2.9	2.5
Capital Region	3.2	3.5	3.2
Frederick	2.9	3.6	3.0
Montgomery	2.7	2.9	2.6
Prince George's	3.9	4.1	3.8
Southern Maryland	3.0	3.3	3.0
Calvert	2.9	3.3	2.9
Charles	2.9	3.3	3.0
St. Mary's	3.1	3.4	3.0
Eastern Shore	4.6	5.7	4.7
Caroline	4.4	5.3	4.4
Cecil	3.7	5.1	4.3
Dorchester	5.9	6.8	5.6
Kent	4.0	5.2	4.1
Queen Anne's	3.3	4.0	3.4
Somerset	6.0	6.6	5.7
Talbot	3.8	4.6	3.7
Wicomico	4.1	5.1	4.1
Worcester	8.5	10.0	8.1
Western Maryland	5.3	6.1	5.3
Allegany	6.0	7.2	5.8
Garrett	6.0	6.6	5.5
Washington	4.7	5.5	5.0

Jobs and Sectors

While muted performance in the state's construction industry has contributed to a slowing in the overall pace of job generation, Maryland's economy has created about 21,000 jobs over the past year, according to the state's Department of Labor Licensing and Regulation. The primary sources of business expansion have been professional/business services, leisure/hospitality and education/health services.

Education, Health Care and Social Assistance

Job growth in education and health services remains strong in Maryland, averaging 2 percent annual growth for the first three months of 2007. The health care industry had added 4,200 Maryland-based jobs over the year, including 2,300 hospital jobs and 1,600 jobs in nursing and residential care facilities. Educational services, which include instruction and training provided by schools, colleges, universities and training centers, added 1,700 net new jobs. Payroll employment at colleges, universities and professional schools in Maryland has grown at a rate of 8.0 percent over the previous year.



Leisure and Hospitality

Maryland's leisure and hospitality sector led the state in job growth, with 3 percent growth in the first three months of 2007. The industry added over 5,600 net new jobs from March 2006 to March 2007. Food services, including restaurants and bars, accounted for 4,200 of the net new jobs. Arts, entertainment and recreation employment also added jobs, averaging 4.2 percent growth year-to-date.

Tourism activity in the region was generally weak, according to a Federal Reserve Bank of Richmond survey. Ski resorts reported a decline in the number of skiers as cold weather in February failed to make up for unusually warm weather in January.

Passenger totals decreased 3.3 percent at Baltimore/Washington International Thurgood Marshall Airport for the month of March 2007 compared to March 2006. Weather caused air traffic delays and canceled flights during a major storm which affected the East Coast. Total passengers for the 12 month period ending in March exceeded 20.6 million, which represents an increase of 3.6 percent compared to the same 12 month period for the prior year.

Professional and Business Services

Maryland-based employment in professional and business services has increased at an annual average rate of 1.8 percent. The sector gained 6,200 net new jobs from March 2006 to March 2007, with 3,900 of those in professional, scientific and technical services. Management and technical consulting services jobs increased nearly 6 percent over the same period. Administrative and support industries added 1,900 jobs from March 2006 to March 2007.

Retail Trade

Retail employment in Maryland slowed in March after a relatively strong growth through December. The largest share of retail jobs is in food and beverage stores, and these jobs grew by nearly 2 percent over March 2006. However, department store employment continued its slide, falling 8 percent year-to-date and shedding 2,600 Maryland-based jobs since March 2006. The Federal Reserve Bank of Richmond survey of retailers also found evidence of weakening retail sales in the region, pulled down in part by declining big-ticket sales.

Nationally, the U.S. Census Bureau reported that retail trade sales for March rose 3.6 percent from March 2006, boosted by an early Easter and strong demand for clothing. With housing

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Jobs and Sectors (continued from page 3)

and manufacturing in the doldrums, the consumer is keeping the forward momentum going. Analysts said the numbers are broadly positive and clearly indicate a resilient consumer sector. However, the negative effects from gasoline prices and housing on consumer spending are still having ripple effects in some areas of spending such as large ticket items.

Manufacturing

Maryland manufacturing jobs declined 1.8 percent from March 2006 to March 2007. The largest declines are in transportation equipment and computer and electronic equipment manufacturing. Overall, manufacturing industry earnings increased 1.6 percent and hours worked in manufacturing rose from a weekly average of 40.3 in March 2006 to 40.6 in March 2007. Nationally, employment in the manufacturing industry declined 0.7 percent. Industry earnings rose 2.5 percent nationally, while average weekly hours in manufacturing went from 41 to 41.1. The Census Bureau reported that new orders for manufactured durable goods in March increased \$7.1 billion or 3.4 percent to \$214.9 billion.

Housing and Construction

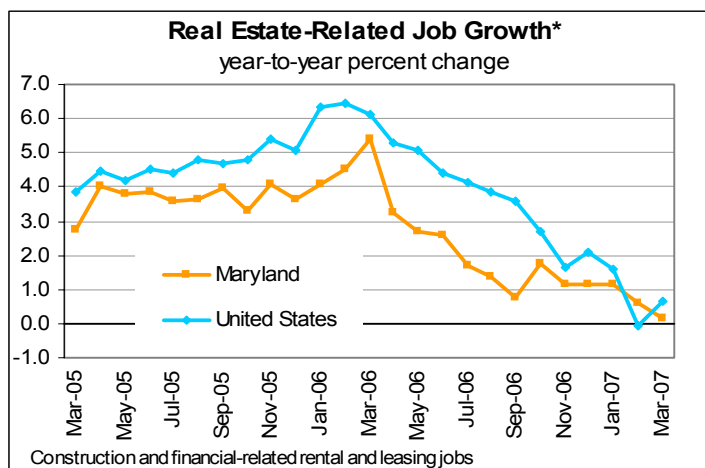
Maryland jobs related to residential and commercial real estate also have continued to slow. Construction employment based in Maryland increased just 0.9 percent so far this year over 2006. Financial-related rental and leasing jobs declined 0.2 percent year-to-date.

U.S. construction employment rose in March, partially offsetting large declines in the prior months. Unusually adverse weather likely contributed to February's decline. Overall, jobs related to residential and commercial real estate have shown no net growth over March 2006. The U.S. Census Bureau announced that construction spending during March 2007 was estimated at a seasonally adjusted annual rate of \$1,188 billion—2.0 percent below the March 2006 estimate of \$1,212 billion.

For the U.S., data show the housing slump is continuing, exacerbated by rising foreclosures that have added to the supply of unsold homes and caused lenders to tighten credit for some buyers. The National Association of Realtors reported existing homes sales of 482,000 units in March. On a seasonally adjusted annual basis, that means that sales of existing homes fell by 8.4 percent in March, the fastest decline since 1989. The declines were widespread across the country, with the slowest sales in the Midwest. New single-family home sales rose 2.6 percent in March and new

home prices rose 6.4 percent to \$254,000 from a year ago, positive signs that the worst in housing may be over. Both housing starts and new permits for March came in above expectations: housing starts rose by 0.8 percent in March to an annualized pace of 1.52 million units and permits edged up 0.8 percent as well to an annual rate of 1.54 million units.

The number of existing homes sold in Maryland increased by 17.8 percent in March to 5,868 units, but was down 15.7 percent from last year. The median home sales price in Maryland was \$302,750 in March, only 0.3 percent higher than the March 2006 median home price. While national delinquency and foreclosure rates have increased significantly since last year, Maryland foreclosure rates remain below the national average, according to the Maryland Department of Housing and Community Development.



Information Services

Information services sector employment in Maryland has declined 3 percent in the first three months of 2007 compared to the same period last year. From a peak of 62,000 Maryland-based jobs in December 2000, information sector employment has fallen to approximately 50,000. The information services sector includes establishments engaged in producing and distributing information and cultural products; those that provide the means to transmit or distribute these products as well as data or communications; and those that process data. The main components of this sector are publishing industries, including software publishing and publishing on the Internet; motion picture and sound recording industries; broadcasting industries; telecommunications industries; Internet service providers and Web search portals; data processing industries; and other information services industries.

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FOCUS: Personal Income in 2006

Preliminary data from the Bureau of Economic Analysis indicate that the growth in personal income for the nation picked up in 2006. U.S. personal income grew 6.3 percent in 2006, up from 5.2 percent in 2005, according to estimates released in March.

In 2006 Maryland's total personal income of \$247 billion ranked 14th in the United States. The 2005 total personal income reflected an increase of 5.5 percent from 2005. Louisiana's personal income grew at a rate of 19.4 percent, which reflects the effects of accounting for property losses following Katrina, population loss of more than 200,000 residents, as well as wage gains associated with the recovery. Other states with the fastest growth in personal income include: Wyoming (10.4 percent), Utah (9.1 percent), Oklahoma (8.6 percent), Arizona (8.5 percent) and Texas (8.2 percent).

In 2006 Maryland's per capita personal income remained the fourth highest among states at \$44,077—122 percent of the

national average. Maryland's 2006 per capita income reflected an increase of 5.0 percent from 2005. Per capita income in the U.S. increased by 5.2 percent from 2005 to 2006.

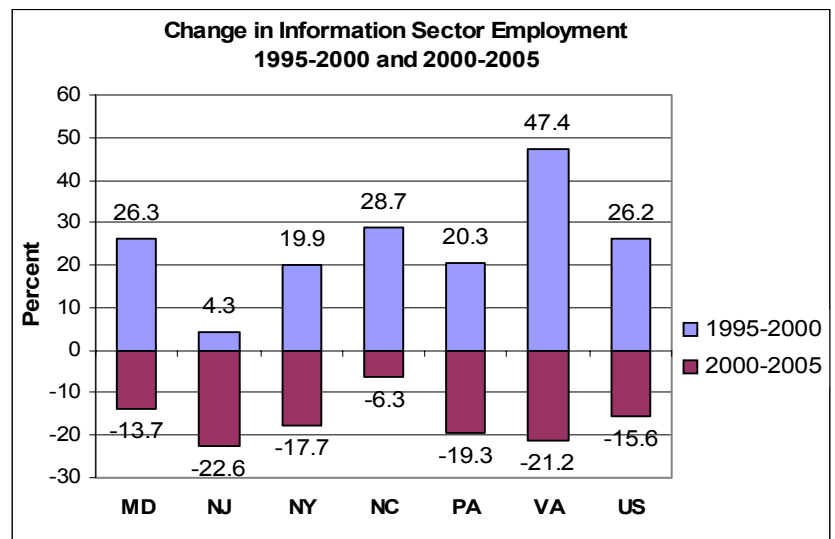
Total personal income includes net earnings by place of residence; dividends, interest, and rent; and total personal current transfer receipts received. In 2006 net earnings accounted for 72.4 percent of Maryland total personal income. From 1995 to 2005 net earnings of Maryland residents increased on average 6.0 percent each year. From 2005 to 2006 net earnings increased 4.9 percent.

In 2006 dividends, interest and rent accounted for 16.4 percent of Maryland income and personal current transfer receipts were 11.2 percent. Dividends, interest and rent increased 7.4 percent in 2006 compared to 6.1 percent in 2005; and personal current transfer receipts increased 6.4 percent in 2006 compared to 8.0 percent in 2005.

Jobs and Sectors (continued from page 4)

Maryland's job losses in telecommunications have been partially offset by gains in data processing services, while publishing employment has remained generally steady.

The decline in Maryland's information sector reflects a larger national trend. From 1995 through 2000, information services grew an annual average of 5 percent nationally. The largest gains were in the area of Internet search portals and data processing. Since 2001, the sector has averaged employment loss of 3 percent per year. The largest losses were in the area of telecommunications carriers. The trend is similar in neighboring states and across the country, where telecommunications carriers shed nearly 220,000 jobs from 2000 to 2005.



Maryland Leading Index

The Maryland index of leading indicators, which is designed to forecast the performance of the economy six to nine months in advance, fell 0.9 percent in March. Although four of the seven Maryland components that contribute to the indicator were positive, all three of the national components contributed to a negative movement in the index. The strongest positive indicator was a drop in Maryland's number of initial unemployment insurance claims.

The largest negative indicator was a decline in help-wanted advertising in the Southeast region.

The U.S. leading index increased slightly in March following two consecutive declines. The Conference Board reported that the weaknesses among the indicators have become increasingly more widespread than the strengths over the past few months.

Selected Monthly Economic Indicators

Selected Indicators	Maryland					U.S.				
	Mar 2007	Feb 2007	Percent Change From Last Month	Mar 2006	Percent Change From Last Year	Mar 2007	Feb 2007	Percent Change From Last Month	Mar 2006	Percent Change From Last Year
Labor Market										
Labor Force (in thousands)	3,005	2,988	0.6	2,970	1.2	152,236	151,879	0.2	150,027	1.5
Employment (in thousands)	2,896	2,864	1.1	2,859	1.3	145,323	144,479	0.6	142,772	1.8
Unemployment Rate	3.6	4.1	-12.2	3.7	-2.7	4.5	4.9	-8.2	4.8	-6.3
Initial Claims for Unemployment Insurance	14,303	17,717	-19.3	14,222	0.6	1,235,874	1,301,836	-5.1	1,251,827	-1.3
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,586.7	2,559.6	1.1	2,566.9	0.8	136,842	135,903	0.7	134,868	1.5
Construction, Mining & Natural Resources	188.3	184.9	1.8	187.3	0.5	8,057	7,870	2.4	7,991	0.8
Manufacturing	134.3	133.8	0.4	136.8	-1.8	14,038	14,015	0.2	14,141	-0.7
Trade, Transportation, Utilities	468.1	464.5	0.8	468.9	-0.2	26,163	25,996	0.6	25,928	0.9
Information	49.6	49.3	0.6	51.2	-3.1	3,073	3,075	-0.1	3,048	0.8
Financial Activities	159.1	158.9	0.1	159.6	-0.3	8,415	8,404	0.1	8,282	1.6
Professional & Business Services	396.6	391.7	1.3	390.4	1.6	17,611	17,504	0.6	17,225	2.2
Education & Health Services	368.8	367.2	0.4	362.4	1.8	18,350	18,253	0.5	17,862	2.7
Leisure & Hospitality	223.0	216.7	2.9	217.4	2.6	13,096	12,891	1.6	12,674	3.3
Other Services	116.9	115.6	1.1	116.2	0.6	5,440	5,408	0.6	5,410	0.6
Government	482.0	477.0	1.0	476.7	1.1	22,599	22,487	0.5	22,307	1.3
Average Weekly Earnings (\$)	718.6	711.0	1.1	707.3	1.6	701.2	689.3	1.7	684.3	2.5
Average Weekly Hours	40.6	39.9	1.8	40.3	0.7	41.1	40.5	1.5	41.0	0.2
Business and Consumer Markets										
BWI Cargo (Metric Tons)	10,003	8,509	17.6	11,056	-9.5					
BWI Passengers (Millions)	1.71	1.34	27.6	1.77	-3.3					
Electric Meters Installed, Commercial	195	142	37.3	202	-3.5					
Electric Meters Installed, Residential	919	625	47.0	1,142	-19.5					
Electricity Sales, Commercial (Millions of MWh)	1.54	1.54	-0.2	1.50	2.4					
Electricity Sales, Residential (Millions of MWh)	1.12	1.15	-2.5	1.12	-0.7					
Existing Home Sales (U.S. in Thousands)	5,868	4,982	17.8	6,958	-15.7	482	387	24.5	554	-13.0
New Auto Sales (U.S. seasonally adjusted)	32,862	24,793	32.5	34,167	-3.8	1,389,800	1,419,600	-2.1	1,424,600	-2.4
New Residential Permits Authorized	2,366	1,881	25.8	2,448	-3.3	139,222	109,891	26.7	191,266	-27.2
Indexes										
Leading Index	132.9	134.2	-0.9	137.5	-3.3	137.4	137.2	0.1	138.9	-1.1
Coincident Index (Federal Reserve Philadelphia)	163.9	163.3	0.4	159.7	2.6	158.2	157.8	0.3	153.5	3.1
Coincident Index (U.S.-Conference Board)						123.7	123.6	0.1	122.3	1.1
CPI (Washington - Baltimore, CMSA)	131.9	N/A	N/A	126.8	4.1	205.4	203.5	0.9	199.8	2.8
Stock Index	358.5	368.7	-2.8	352.4	1.8	1,424.6	1,406.8	1.3	1,294.8	10.0

Notes: Data are not seasonally adjusted except where noted



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